

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Quartzsite Elementary School District No. 4

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 4, 2006

Governing Board
Quartzsite Elementary School District No. 4
P.O. Box 130
Ehrenberg, AZ 85334-0130

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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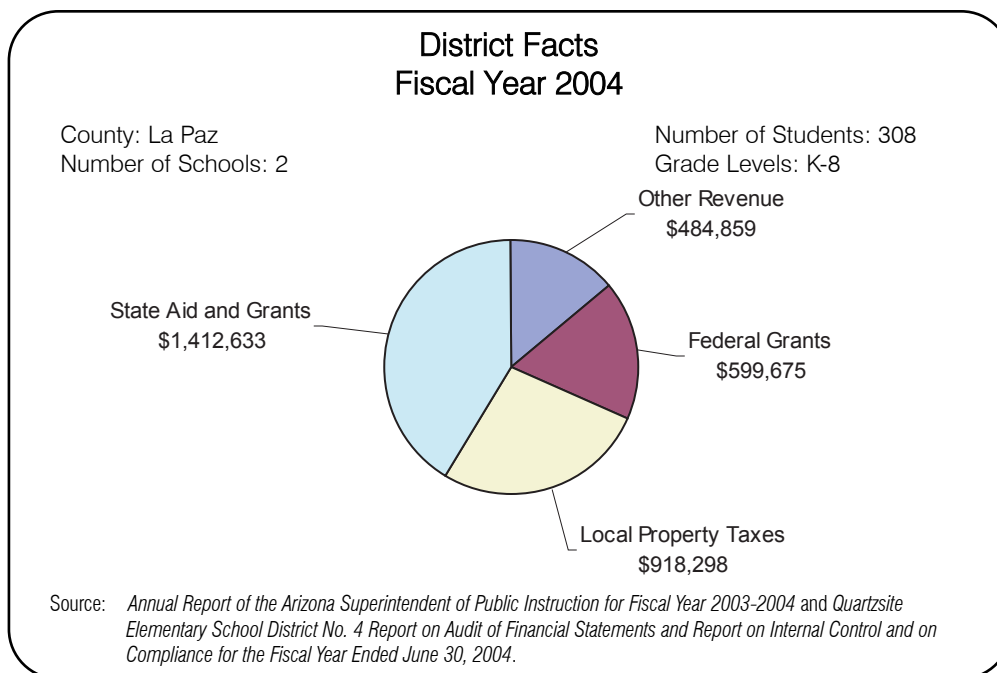
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INTRODUCTION

Quartzsite Elementary School District No. 4 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.4 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District generally did not follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not issue invitations for bids for purchases above the competitive sealed bid threshold. Also, the District did not always obtain written and oral price quotations for purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Determine whether to request a written or oral price quotation or competitive sealed bids by analyzing the quantities required for an item or a collection of items that, in the aggregate, may result in purchases above \$5,000.
- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services exceeding \$33,689.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Guidelines for written and oral price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly authorized and recorded. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records of revenues, expenditures, and cash balances to the County School

Superintendent's (CSS) records, and its cash balances were not reconciled to the County Treasurer's records. Also, the District allocated interest revenue incorrectly, misclassified travel and capital lease expenditures, and did not approve journal entries prior to posting them to the accounting records. In addition, the District did not ensure that sufficient cash was available in the Food Service Fund before authorizing expenditures from that fund. Further, the District did not accurately report capital asset information on its annual financial report (AFR). Finally, the District did not always submit required records to ADE and, when records were submitted, the District did not retain documentation to support that the required records were submitted to ADE and the CSS.

The District did not ensure that sufficient cash was available in the Food Service Fund before authorizing expenditures, resulting in a deficit fund balance of \$83,736 at June 30, 2004.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

- Reconcile its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year-end to the CSS records. Investigate all reconciling items and make any necessary corrections.
- Ensure that the District's records of cash balances are reconciled to the County Treasurer's records at least monthly, that differences are promptly investigated, and that appropriate corrections are made.
- Review the apportionment of interest earned on pooled investments performed by the County Treasurer and CSS and make any necessary adjustments.
- Classify expenditures in accordance with the USFR Chart of Accounts.
- Require a supervisor to review and approve journal entries before they are posted to the accounting records.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.
- Update accounting records for all revenues, expenditures, and capital asset balances before preparing the AFR. Once prepared, have a second employee verify that amounts reported on the AFR agree with the District's accounting records before submitting the AFR to ADE and the CSS.
- Submit required records to ADE and the CSS and retain documentation to support that the records were submitted.

USFR pages VI-B-8 through 10 provide guidance for reconciling district records to those of the CSS and County Treasurer.

The District's controls over cash receipts and bank accounts should be strengthened

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including student activities, extracurricular activities fees tax credits, auxiliary operations, and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that bank accounts are used as authorized by statute. These controls require that the District document amounts received, deposit cash receipts timely in the appropriate bank account, and retain support for checks written. However, the District did not have strong controls over its cash receipts and bank accounts. For example, the District did not retain documentation to support that the amount of student activities monies received and reported on the cash collection reports was accurate, and did not deposit student activities, extracurricular activities fees tax credit, and food service monies in a timely manner. Also, the District did not remit receipts deposited in the Food Service Fund clearing bank account to the County Treasurer monthly.

Further, the District's auxiliary operations bank accounts were not used appropriately, and the checkbook balance on the bank reconciliations did not agree to the actual check register balance. Finally, the District did not retain documentation to indicate that students approved student activities disbursements, and also maintained several student club accounts that appeared to be invalid or had negative cash balances.

Recommendations

To improve controls over cash receipts, disbursements, and bank accounts, the District should:

- Document sales from student activities events by issuing tickets, counting items before and after sales, or issuing prenumbered cash receipt forms, unless it is not practical to do so (i.e. bake sales). Reconcile tickets or items sold to cash collections on cash collection reports.
- Deposit all cash receipts daily, if significant, or at least weekly in the appropriate bank account.
- Remit monies deposited in the Food Service Fund clearing bank account to the County Treasurer weekly, or at least monthly.
- Use the Auxiliary Operations Fund bank accounts only to account for monies received in connection with bookstore operations and athletic activities.

Sample student activities cash collection procedures can be found on USFR pages X-H-5 through 9.

- Prepare written bank reconciliations monthly to reconcile bank and checkbook balances for all bank accounts. All discrepancies should be investigated and corrected.
- Ensure that the Student Activities Fund bank account includes only monies raised by student efforts, that disbursements are approved by the student clubs and documented in meeting minutes, and that clubs have sufficient cash balances before disbursements are authorized.

The District should ensure the accuracy of its student attendance records

The State provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not always record partial-day absences accurately, and membership and absence days reported in the District's attendance records did not agree to ADE's reports. In addition, the District did not ensure that entry and withdrawal dates were recorded on all student entry and withdrawal forms, that the dates on the forms agreed to the District's attendance records, and that absences recorded in the computerized attendance system agreed to teacher attendance registers. Finally, students with 10 consecutive days of unexcused absences were not always withdrawn correctly.

The District may not have received the appropriate amount of funding as student attendance records were not adequate to ensure that attendance data was accurately reported to ADE.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second employee should verify that membership and absences reported to ADE are calculated accurately and agree with the District's records, including teacher attendance registers. Also, District employees should accurately prepare and retain student entry and withdrawal forms, and accurately post the entry and withdrawal dates to the District's computerized attendance system and teacher attendance registers. In addition, the District should withdraw students absent for 10 consecutive unexcused days, and these students should only be counted in membership through the last day of attendance.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.